嘉華國際集團有限公司
K. WAH INTERNATIONAL HOLDINGS LIMITED
於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability

(Stock Code: 00173)

Delivering Value with Distinctive Quality

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS HIGHLIGHTS

The Board of Directors ("***Board***") of K. Wah International Holdings Limited ("***Company***") is pleased to announce the consolidated annual results of the Company and its subsidiaries (together the "***Group***") as follows:

- Underlying profit increased by 19% to HK$3,005 million whereas, profit attributable to equity holders also increased to HK$4,046 million.
- Revenue of the Group was HK$10,760 million and taking into account joint ventures and associated companies, total attributable revenue of the Group was HK$10,918 million.
- Attributable contracted sales of the Group amounted to approximately HK$12.1 billion for the year ended 31 December 2018.
- As of 31 December 2018, attributable contracted sales yet to be recognised amounted to approximately HK$12.2 billion.
- Earnings per share was 129.51 HK cents and the full year dividend per share (including final dividend per share of 14 HK cents) was 20 HK cents, an increase of 11%.
- As of 31 December 2018, net asset value per share was HK$11.4 and cash and bank deposits amounted to HK$7.5 billion.
- The Group enhanced its funding capability and lowered its financing cost by successfully securing a HK$7 billion 5-year loan facility in January 2018.
- The Group participated in joint ventures for property development in the Pearl River and Yangtze River Deltas. The Group also acquired a 100% interest in a land site in Dongguan. The Group will continue to seek opportunities to augment its landbank on a disciplined basis in Hong Kong, the Pearl River and Yangtze River Deltas.

CONSOLIDATED PROFIT AND LOSS STATEMENT
For the year ended 31 December 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Revenue	3	**10,759,792**	11,293,887
Cost of sales		**(5,929,784)**	(5,633,511)
Gross profit		**4,830,008**	5,660,376
Other operating income		**270,445**	220,923
Other net (losses)/gains		**(70,187)**	48,531
Fair value gain on transfer of development properties to investment properties	4	**1,105,792**	1,275,065
Change in fair value of investment properties		**310,846**	458,631
Other operating expenses		**(492,647)**	(608,661)
Administrative expenses		**(490,044)**	(493,379)
Finance costs	5	**(12,465)**	(20,353)
Share of profits of joint ventures		**14,980**	131,430
Share of profits of associated companies		**71,776**	62,764
Profit before taxation	6	**5,538,504**	6,735,327
Taxation charge	7	**(1,361,800)**	(2,218,052)
Profit for the year		**4,176,704**	4,517,275
Attributable to:			
Equity holders of the Company		**4,046,390**	3,906,182
Non-controlling interests		**130,314**	611,093
		4,176,704	4,517,275

		HK cents	*HK cents*
Earnings per share	8		
Basic		**129.51**	128.18
Diluted		**129.34**	127.78

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Profit for the year	**4,176,704**	4,517,275
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit and loss:		
Change in fair value of financial assets at fair value through other comprehensive income	**(2,096,044)**	4,695,789
Items that may be reclassified to profit and loss:		
Exchange differences arising from translation	**(1,093,927)**	1,259,199
Release of exchange reserve upon reduction of interest in subsidiaries	**-**	(40,182)
Other comprehensive (loss)/income for the year	**(3,189,971)**	5,914,806
Total comprehensive income for the year	**986,733**	10,432,081
Total comprehensive income attributable to:		
Equity holders of the Company	**911,053**	9,742,210
Non-controlling interests	**75,680**	689,871
	986,733	10,432,081

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**485,296**	447,913
Investment properties		**14,138,018**	12,599,451
Leasehold land and land use rights		**17,149**	14,684
Joint ventures		**6,436,888**	7,237,381
Associated companies		**1,105,550**	1,106,983
Financial assets at fair value through other comprehensive income		**8,091,706**	10,187,750
Deferred taxation assets		**97,646**	119,663
Other non-current assets		**569,899**	585,192
		30,942,152	32,299,017
Current assets			
Development properties		**29,952,900**	29,696,662
Inventories		**2,226**	3,990
Amounts due from associated companies		**5,165**	3,674
Debtors and prepayments	10	**562,070**	2,118,931
Land and tender deposits		**25,000**	1,896,658
Financial assets at fair value through profit or loss		**498,915**	270,024
Taxes recoverable		**416,884**	368,954
Cash and bank deposits		**7,488,536**	5,848,809
		38,951,696	40,207,702
Total assets		**69,893,848**	72,506,719
EQUITY			
Share capital		**312,485**	305,546
Reserves		**35,328,008**	34,697,102
Shareholders' funds		**35,640,493**	35,002,648
Non-controlling interests		**1,361,232**	2,014,039
Total equity		**37,001,725**	37,016,687
LIABILITIES			
Non-current liabilities			
Borrowings		**16,609,816**	16,668,400
Guaranteed notes		**1,000,127**	998,863
Deferred taxation liabilities		**2,449,047**	2,147,108
		20,058,990	19,814,371
Current liabilities			
Amounts due to joint ventures		**1,243,750**	824,220
Amounts due to associated companies		**372,909**	415,839
Creditors and accruals	11	**1,669,632**	2,213,195
Pre-sales deposits		**6,261,399**	7,731,214
Current portion of borrowings		**1,100,803**	811,587
Derivative financial instruments		**-**	615
Taxes payable		**2,184,640**	3,678,991
		12,833,133	15,675,661
Total liabilities		**32,892,123**	35,490,032
Total equity and liabilities		**69,893,848**	72,506,719
Net current assets		**26,118,563**	24,532,041
Total assets less current liabilities		**57,060,715**	56,831,058

NOTES

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("***HKFRSs***") issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention as modified by the revaluation of investment properties, certain financial assets (including financial assets at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss), which are carried at fair values.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2017, except as stated below.

The adoption of new standards and amendments and interpretation to standards

In 2018, the Group adopted the following new standards and amendments and interpretation to standards, which are relevant to its operations.

HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to HKFRSs 2014–2016 Cycle	

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note (i) below. The other amendments and interpretation to standards did not have significant impact on the Group's accounting policies and did not require retrospective adjustments.

New standards and amendments and interpretation to standards that are not yet effective

		Effective for accounting periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits - Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No mandatory effective date
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle		1 January 2019
Conceptual Framework for Financial Reporting 2018		1 January 2020

The Group will adopt the above new standards and amendments and interpretation to standards as and when they become effective. The Group has performed a preliminary assessment of the likely impact of adopting the above new standards and amendments and interpretation to standards, in which the impact arising from adopting of HKFRS 16 is detailed below. The Group will continue to assess the impact in more details.

1. **Basis of preparation (Cont'd)**

HKFRS 16 'Leases'

The new standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased asset) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term. Based on the preliminary assessment, it is estimated that the impact to the Group's profit and total equity upon the adoption of HKFRS 16 is insignificant.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from the above, there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies and presentation of the consolidated financial statements.

(i) Changes in accounting policies

The changes in accounting policies upon the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' are set out below:

HKFRS 9 'Financial Instruments'

<u>Classification, measurement and derecognition of financial assets</u>

The Group's management has assessed the Group's business models of management, and the contractual cash flow characteristics, of each of the Group's financial instruments, and has classified them into appropriate categories under HKFRS 9.

The Group has elected to present changes in the fair value of its listed equity securities not held for trading (previously classified under non-current investment and accounted for as available-for-sale financial asset) in other comprehensive income. Under this election, only qualifying dividends are recognised in profit and loss unless they clearly represented recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

<u>Impairment of financial assets</u>

The Group assessed on a forward looking basis for the expected credit losses associated with its financial assets carried at amortised cost. The results of the adopted new impairment model have not resulted in material impact on the carrying amount of the Group's financial assets as at 1 January 2017 and 31 December 2017.

The Group has elected to apply the new standard retrospectively and has restated comparatives for the prior years presented. Accordingly, non-current investment of approximately HK$5.5 billion and HK$10.2 billion as at 1 January 2017 and 31 December 2017 respectively, was reclassified to financial assets at fair value through other comprehensive income.

1. Basis of preparation (Cont'd)

(i) Changes in accounting policies (Cont'd)

HKFRS 15 'Revenue from Contracts with Customers'

In prior reporting years, revenue from the sale of properties was recognised when significant risks and rewards of ownership of properties have been transferred to the customers.

Under HKFRS 15, revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contracts and the relevant laws that apply to the contracts, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

Revenue from sales of completed properties is recognised at a later point in time when the underlying property is legally and/or physically transferred to the customer.

The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financial component exists in that contract.

Pre-sales deposits in relation to advanced proceeds received from customers represent contract liabilities under HKFRS 15.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract acquisition cost and subsequently amortised when the related revenue is recognised.

The Group has elected to use a modified retrospective approach on all the uncompleted contracts as at 1 January 2018, which the cumulative impact of the adoption is recognised as an adjustment to the retained earnings as at 1 January 2018 and that the comparatives is not restated. The adoption of HKFRS 15 has no material impact to the retained earnings as at 1 January 2018 and therefore, no adjustment was made.

2. Segment information

The Group is principally engaged in property development and investment in Hong Kong and Mainland China. In accordance with the internal financial reporting of the Group provided to the chief operating decision-maker for the purposes of allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are property development and property investment. The Group regards the Board as the chief operating decision-maker.

2. Segment information (Cont'd)

The results of the operating segments represent the adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "***Adjusted EBITDA***"). Certain items include other operating income/expenses, other net losses/gains, fair value gain on transfer of development properties to investment properties and change in fair value of investment properties. Also the Adjusted EBITDA excludes the share of results of joint ventures and associated companies. There are no sales or trading transactions between the operating segments. Others represent corporate level activities including central treasury management, hotel operation and administrative function.

Segment assets primarily consist of property, plant and equipment, leasehold land and land use rights, deferred taxation assets, other non-current assets, development and investment properties, debtors and prepayments, land and tender deposits, financial assets at fair value through profit or loss, taxes recoverable, cash and bank deposits and other assets mainly include financial assets at fair value through other comprehensive income, derivative financial instruments, hotel buildings, inventories and other non-operating assets held by the corporate office. Segment liabilities comprise mainly creditors and accruals, pre-sales deposits, amounts due to joint ventures and associated companies, borrowings, guaranteed notes, derivative financial instruments, taxes payable and deferred taxation liabilities. Other liabilities include liabilities not arising from the operation of the operating segments.

2. Segment information (Cont'd)

	Property development			Property investment	Others	Total
	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Others** *HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018						
Revenue from contracts with customers						
- Recognised at a point in time	**7,115,001**	**2,994,180**	**-**	**-**	**-**	**10,109,181**
- Recognised over time	**-**	**-**	**-**	**-**	**111,603**	**111,603**
Revenue from other sources						
-Rental income	**-**	**-**	**-**	**539,008**	**-**	**539,008**
Revenue	**7,115,001**	**2,994,180**	**-**	**539,008**	**111,603**	**10,759,792**
Adjusted EBITDA	**3,202,044**	**950,404**	**(3,422)**	**432,536**	**(212,801)**	**4,368,761**
Other income and expenses/losses, net						**(292,389)**
Depreciation and amortization						**(28,797)**
Fair value gain on transfer of development properties to investment properties				**1,105,792**		**1,105,792**
Change in fair value of investment properties				**310,846**		**310,846**
Finance costs						**(12,465)**
Share of profits/(losses) of joint ventures	**32,164**	**(17,184)**				**14,980**
Share of profits/(losses) of associated companies	**73,695**	**(1,919)**				**71,776**
Profit before taxation						**5,538,504**
Taxation charge						**(1,361,800)**
Profit for the year						**4,176,704**
As at 31 December 2018						
Segment assets	**18,848,005**	**19,965,683**	**9,555**	**14,489,103**	**-**	**53,312,346**
Other assets	**-**	**-**	**-**	**-**	**9,033,899**	**9,033,899**
Joint ventures	**5,319,488**	**1,117,400**	**-**	**-**	**-**	**6,436,888**
Associated companies	**979,719**	**130,996**	**-**	**-**	**-**	**1,110,715**
Total assets	**25,147,212**	**21,214,079**	**9,555**	**14,489,103**	**9,033,899**	**69,893,848**
Total liabilities	**16,519,036**	**13,672,551**	**446**	**2,634,444**	**65,646**	**32,892,123**
Year ended 31 December 2017						
Revenue	5,399,461	5,324,044	-	463,630	106,752	11,293,887
Adjusted EBITDA	1,902,210	3,134,452	(3,101)	370,691	(205,825)	5,198,427
Other income and expenses/gains, net						(339,207)
Depreciation and amortisation						(31,430)
Fair value gain on transfer of development properties to investment properties				1,275,065		1,275,065
Change in fair value of investment properties				458,631		458,631
Finance costs						(20,353)
Share of profits/(losses) of joint ventures	135,413	(3,983)				131,430
Share of profits of associated companies	62,764	-				62,764
Profit before taxation						6,735,327
Taxation charge						(2,218,052)
Profit for the year						4,517,275

2. Segment information (Cont'd)

	Property development			Property investment	Others	Total
	Hong Kong ***HK$'000***	**Mainland China** ***HK$'000***	**Others** ***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 31 December 2017						
Segment assets	19,334,857	20,824,513	149,506	12,911,490	-	53,220,366
Other assets	-	-	-	-	10,938,315	10,938,315
Joint ventures	6,766,148	471,233	-	-	-	7,237,381
Associated companies	1,110,657	-	-	-	-	1,110,657
Total assets	27,211,662	21,295,746	149,506	12,911,490	10,938,315	72,506,719
Total liabilities	17,583,923	15,489,392	648	2,356,300	59,769	35,490,032
Year ended 31 December 2018						
Additions to non-current assets	**-**	**2,931**	**8**	**18**	**907**	**3,864**
Year ended 31 December 2017						
Additions to non-current assets	-	7,248	15	412	1,203	8,878

Geographical segment information

The Group operates in two (2017: two, as restated) main geographical areas, including Hong Kong and Mainland China. The Singapore segment is not considered to be of continuing significance for the year ended 31 December 2018. Accordingly, it is not separately disclosed and certain comparatives are restated to conform with current year's presentation.

The revenue for the years ended 31 December 2018 and 2017 and total non-current assets (other than joint ventures, associated companies, financial assets at fair value through other comprehensive income, deferred taxation assets and other non-current assets) as at 31 December 2018 and 2017 by geographical area are as follows:

Revenue

	2018 ***HK$'000***	2017 *HK$'000*
Hong Kong	**7,188,205**	5,468,814
Mainland China	**3,571,587**	5,825,073
	10,759,792	11,293,887

Non-current assets

	2018 ***HK$'000***	2017 *HK$'000*
Hong Kong	**3,003,484**	2,940,511
Mainland China	**11,636,826**	10,121,355
Other	**153**	182
	14,640,463	13,062,048

3. Revenue

	2018	2017
	HK$'000	*HK$'000*
Sale of properties	**10,109,181**	10,723,505
Rental income	**539,008**	463,630
Hotel operations	**111,603**	106,752
	10,759,792	11,293,887

4. Fair value gain on transfer of development properties to investment properties

The amount represents fair value gain on transfer of certain development properties to investment properties in pursuance of the Group's strategy to increase the recurring income.

5. Finance costs

	2018	2017
	HK$'000	*HK$'000*
Interest expenses		
Bank loans, guaranteed notes, overdrafts and others	**491,337**	439,946
Capitalised as cost of properties under development	**(478,872)**	(419,593)
	12,465	20,353

6. Profit before taxation

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation is stated after crediting:		
Interest income from banks	**66,705**	80,350
Dividend income from financial assets at fair value through other comprehensive income	**147,860**	95,866
Release of exchange reserve upon reduction of interest in subsidiaries	**-**	40,182
Net gain on settlement of derivative financial instruments	**4,365**	-
Net fair value gains on derivative financial instruments	**-**	3,717
Net fair value gains on financial assets at fair value through profit or loss	**13,507**	9,464
Net exchange gains	**-**	2,904
and after charging:		
Cost of properties sold	**5,800,661**	5,525,278
Cost of inventories consumed/sold	**20,730**	20,869
Selling and marketing expenses	**460,145**	581,026
Depreciation (net of capitalisation)	**28,674**	31,310
Amortisation for leasehold land and land use rights	**123**	120
Operating lease rental for land and building	**7,924**	8,041
Loss on disposal of property, plant and equipment	**171**	56
Net loss on settlement of derivative financial instruments	**-**	7,680
Net exchange losses	**87,888**	-

7. Taxation charge

	2018	2017
	HK$'000	*HK$'000*
Current		
Hong Kong profits tax	**429,335**	261,175
Mainland China		
- Income tax	**245,599**	499,970
- Land appreciation tax	**266,549**	1,036,103
Overseas	**-**	141
Over-provision in previous years	**(203)**	(5,497)
Deferred	**420,520**	426,160
	1,361,800	2,218,052

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward. Taxation assessable on profits generated in Mainland China and overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates. There is no income tax provided on other comprehensive income.

Land appreciation tax in Mainland China is normally provided at statutory progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

8. Earnings per share

The calculation of basic and diluted earnings per share for the year is based on the following:

	2018	2017
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**4,046,390**	3,906,182

	Number of shares	
	2018	2017
Weighted average number of shares for calculating basic earnings per share	**3,124,438,000**	3,047,517,000
Effect of dilutive potential ordinary shares - Share options	**4,100,000**	9,339,000
Weighted average number of shares for calculating diluted earnings per share	**3,128,538,000**	3,056,856,000

9. Dividends

	2018	2017
	HK$'000	*HK$'000*
Interim scrip dividend (with a cash option) of 6 HK cents (2017: interim scrip dividend (with a cash option) of 5 HK cents) per share	**187,034**	151,147
Proposed final cash dividend of 14 HK cents (2017: final scrip dividend (with a cash option) of 13 HK cents) per share	**437,480**	397,853
	624,514	549,000
The dividends have been settled by cash as follows:		
Interim	**159,434**	33,447
Final	**-**	142,909
	159,434	176,356

The Board of Directors recommended the payment of a final cash dividend in respect of 2018 of 14 HK cents (2017: final scrip dividend (with a cash option) of 13 HK cents) per share. This dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2019.

10. Debtors and prepayments

	2018	2017
	HK$'000	*HK$'000*
Trade debtors	**5,324**	1,274,660
Other debtors	**258,529**	251,894
Amounts due from non-controlling interests	**11,984**	-
Prepayments and other deposits	**49,041**	328,101
Sales commissions	**91,109**	186,363
Sales taxes	**146,083**	77,913
	562,070	2,118,931

Trade debtors mainly comprise proceeds receivables in respect of sales of properties and rental receivable. Proceeds receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sales and purchase agreements. Rental from tenants is due and payable in advance.

The aging analysis of the trade debtors of the Group based on the date of invoices and net of provision for bad and doubtful debts is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one month	**4,525**	1,260,808
Two to three months	**180**	11,741
Four to six months	**75**	408
Over six months	**544**	1,703
	5,324	1,274,660

11. Creditors and accruals

	2018	2017
	HK$'000	*HK$'000*
Trade creditors	**1,264,651**	1,749,118
Other creditors	**62,536**	65,871
Accrued operating expenses	**147,201**	212,339
Rental and other deposits received	**195,244**	185,867
	1,669,632	2,213,195

The aging analysis of the trade creditors of the Group based on the date of invoices is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one month	**1,239,733**	1,738,121
Two to three months	**2,336**	3,879
Four to six months	**380**	1,878
Over six months	**22,202**	5,240
	1,264,651	1,749,118

12. Guarantees

As at 31 December 2018, the Group has executed the following guarantees in respect of loan facilities granted by banks and financial institutions:

	2018		2017	
	Outstanding	**Utilised**	Outstanding	Utilised
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Joint ventures	**3,609,134**	**2,879,579**	1,460,384	1,323,434
Properties buyers	**1,081,096**	**1,081,096**	1,240,998	1,240,998
	4,690,230	**3,960,675**	2,701,382	2,564,432

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties in Mainland China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Operating Results

Attributable contracted sales of the Group (comprised of contracted sales of the Group and attributable contracted sales from joint ventures and associated companies) in 2018 amounted to approximately HK$12.1 billion, mainly derived from Solaria, K. City and The Spectra in Hong Kong, The Peak and Royal Creek in Nanjing, The Palace in Shanghai, J Metropolis in Guangzhou and Silver Cove in Dongguan, Mainland China.

Following the revised standard for revenue recognition became effective on 1 January 2018, sales are generally recognised at a later point of time than in previous years, upon the completed units being handed over to our customers. Accordingly, certain contracted sales for completed projects were yet to be accounted for in the year. As of 31 December 2018, the Group had attributable unrecognised contracted sales amounted to approximately HK$12.2 billion, expected to be accounted for in the next two years.

The revenue of the Group for the year ended 31 December 2018 was HK$10,760 million, primarily derived from the property sales of K. City and The Spectra in Hong Kong, The Peak in Nanjing, The Palace in Shanghai, J Metropolis in Guangzhou, and Silver Cove in Dongguan, as well as the rental income of Shanghai K. Wah Centre. The attributable revenue of the Group (comprising the revenue of the Group and attributable revenue from joint ventures and associated companies of HK$158 million) was HK$10,918 million for the year ended 31 December 2018.

Profit attributable to equity holders of the Company was HK$4,046 million, while underlying profit of the Group (before fair value gain of investment properties, net of tax) was HK$3,005 million for the year ended 31 December 2018.

The total comprehensive income attributable to equity holders of the Company was HK$911 million for the year ended 31 December 2018 after accounting for the fair value change on the non-current investment of an approximately 3.8% interest in Galaxy Entertainment Group Limited ("***GEG***") and exchange differences arising from translation of the Group's RMB denominated net assets at year end.

Property Development and Investment in Hong Kong

The property market was on an upward trend with home prices continued to reach new heights until August when market sentiment turned soft in the year, as reflected in both transaction volume as well as property price. Homebuyers and investors became more cautious amid interest rate hikes, trade tensions between Mainland China and the US, and global uncertainties.

The Group launched Solaria at an opportune time in June and received an overwhelming response. Initial batches of units were all sold out on the dates of launch at escalating prices. In addition, the Group continued to market the remaining units of K. City and joint venture projects, The Spectra, Marinella, Providence Bay and Providence Peak. The certificate of compliance for K. City was obtained in late November and consequently, the results for approximately 70% of the sold units were recognised in 2018 upon handover to buyers.

The Group's leasing performance continued to be satisfactory during the year. Our premium dining and shopping arcade J SENSES, luxury apartments Chantilly and commercial complex in Twin Peaks all maintained high occupancy with satisfactory rental income. Meanwhile, the remaining office units in Kingsfield Centre were transferred to investment properties in accordance with the Group's strategy to increase recurring income.

(A) Current Major Development Properties

K. City, Kai Tak (100% owned)

This premium residential development is located in the heart of the Kai Tak Development Area with close proximity to Kai Tak MTR Station (under construction) of the Shatin to Central Link. The development offers 900 units with a total GFA of approximately 51,000 square metres. Pre-sales began in 2017 with an overwhelming market response, achieving contracted sales of approximately HK$9.3 billion and only 11 residential units remained available for sale as of year-end. The development is complete with the certificate of compliance obtained in late November 2018.

Solaria, Tai Po (100% owned)

This premium residential development with a total GFA of approximately 61,600 square metres, is located in close proximity to our joint venture projects in Pak Shek Kok. The district is a maturing community with good potential. The development offers 1,122 units. Pre-sales launched in June 2018 and were well received by the market. Of the units launched, over 90% or 709 units were pre-sold for approximately HK$6.3 billion as of year-end. Superstructure works are in progress as scheduled with expected completion in late 2019 or early 2020.

New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2 (100% owned)

This development has a total GFA of approximately 53,000 square metres and is located in the heart of the Kai Tak Development Area near the Kai Tak MTR Station (under construction) of the Shatin to Central Link. It is being developed into a premium residential project and foundation works are in progress as scheduled, with targeted completion by 2021. The application for pre-sales consent was submitted in November 2018.

2 Grampian Road, Kowloon (100% owned)

This unique development is situated in one of Kowloon's prime residential areas with a total GFA of approximately 2,000 square metres. It will comprise 5 quality house units. Superstructure works are well underway with targeted completion in late 2019 or early 2020. Sales will then be launched.

New Kowloon Inland Lot No. 6549, Cheung Sha Wan (22.5% owned)

Acquired in 2017, with a total GFA of approximately 91,800 square metres, the site is situated at a coveted urban waterfront location providing a panoramic harbour view. It is within walking distance to MTR. This is a jointly developed project with other property developers and is being developed into a premium-graded residential property. Foundation works are in progress as scheduled with targeted completion by 2022.

Lot No.1040 in D.D. No.103, Kam Sheung Road Station Package One Property Development, Yuen Long ($33^1/_3$% owned)

This site that was acquired in 2017, with a total GFA of approximately 114,800 square metres, is next to the West Rail Kam Sheung Road Station connecting to other parts of the city and offering convenient access to Mainland China. The site will be developed into a premium residential project in a joint venture with other property developers. Development works are underway.

The Spectra, Yuen Long (60% owned)

This residential development has been undertaken together with another property developer. The total GFA is approximately 49,000 square metres comprising 912 units. The project is complete, and only a few units remained available for sale as of year-end.

Marinella, Aberdeen (35% owned)

Marinella is a luxury residential development with a total GFA of approximately 69,300 square metres that offers 411 units. The project is complete and only two houses remain available for sale as of year-end.

(B) Investment properties

J SENSES at J Residence, Johnston Road, Wan Chai (100% owned)

With a total GFA of approximately 3,400 square metres, J SENSES is a premium dining and shopping arcade located in the prime location on Hong Kong Island offering a dining and leisure environment to the neighborhood. It was fully leased as of year-end and continues to deliver recurring cash flow to the Group.

Commercial Complex at Twin Peaks, Tseung Kwan O (100% owned)

With a total GFA of approximately 3,500 square metres, the complex serves the residents of Twin Peaks and the neighborhood. It was fully leased as of year-end and continues to deliver recurring cash flow to the Group.

Chantilly, 6 Shiu Fai Terrace, Stubbs Road (100% owned)

Located in an exquisite area on Hong Kong Island, Chantilly with a total GFA of approximately 5,100 square metres is held for long term investment. Approximately 70% of the available units were leased as of year-end.

Property Development and Investment in Mainland China

During the year, the overall property market remained steady. Home prices in Tier 1 and 2 cities remained stable while transaction volumes were lowered as a result of various home purchase restrictions, credit tightening policies and adverse market sentiment due to the trade conflicts with the US and global political and economic uncertainties.

The Group’s sales launches during the year included UpTown (J Metropolis Phase IV) in Guangzhou in the second quarter, Huadu Jiahua Plaza Phase III in Guangzhou and Windermere in Shanghai in the last quarter. They all received an encouraging market response. The Group also continued to market the remaining units of The Palace in Shanghai, J Metropolis, Le Palais and J

Wings in Guangzhou, Silver Cove in Dongguan, The Peak and Royal Creek in Nanjing, all with good responses due to their good locations and outstanding quality. Occupation permits for The Palace Phase III, The Peak, Silver Cove Phase III and Huadu Jiahua Plaza Phases III & IV were obtained in the year.

To diversify its business risks and broaden its land replenishment channels, the Group participated in four joint ventures with several property developers for property development in Kunshan, Suzhou, Jiangmen and Jiaxing with a total attributable land premium of approximately RMB1.11 billion, broadening the Group's means of land replenishment. In August, the Group also solely acquired a land site in Dongguan with a GFA of approximately 159,000 square metres for approximately RMB1.77 billion. Other than the joint venture project in Jiangmen, the other three commenced pre-sales in the second half of 2018 with satisfactory market responses.

The Group's investment properties have maintained excellent occupancy throughout the year. Shanghai K. Wah Centre, continued to achieve over 95% occupancy rate. Our serviced apartments branded under "Stanford Residences" have been very well received and enjoy high occupancy. Following two towers of The Palace launching for leasing in 2017, two more were also put into the market upon completion during the year. In addition, an offices tower and retail portions of Huadu Jiahua Plaza Phases III & IV with a GFA of approximately 38,000 square metres were put up for leasing and transferred to investment properties upon completion in November. Market response to the leasing campaign has been satisfactory. An apartment tower therein was also launched for sale with satisfactory response.

(A) Current Major Development Properties

<u>Shanghai, Nanjing and Suzhou</u>

The Palace, Jianguoxi Road, Xuhui District, Shanghai (100% owned)

This unique luxury development is located in an affluent, traditionally residential area of Shanghai. The total GFA of this project is approximately 140,000 square metres, featuring 14 blocks of luxury residential buildings and upscale commercial facilities. The first and second phases of the project comprise 12 towers of which 4 towers are being operated as serviced apartments under "Stanford Residences Xu Hui". The entire project is complete following the occupation permit for Phase III being obtained in March 2018. Phase III comprising 2 towers of approximately 43,000 square metres was expected to be launched for sale in the first quarter of 2019.

Grand Summit, Xinzha Road, Jingan District, Shanghai (100% owned)

Situated in an upmarket area of Jingan District close to the vibrant central retail and business district of Nanjing West Road, this exclusive luxury residential project has a total GFA of approximately 100,000 square metres offering 257 residential units for sale and 129 units held as serviced apartments under "Stanford Residences Jing An". The project is complete and only 3 penthouses are available for sale as of year-end.

The Peak, Xingxian Road, Qixia District, Nanjing (100% owned)

The project, with a total GFA of approximately 132,000 square metres, is an integrated residential and commercial complex offering 1,167 residential units to the market. Pre-sales began in 2016 with good market responses with over 85% sold as of year end. It is located in a well-developed community. Construction of the project was completed and handover of sold units commenced in the second half of 2018.

Windermere, Qingpu District, Shanghai (100% owned)

Located in Zhujiajiao Town in Qingpu District, the development is comprised of 256 house units with ancillary commercial facilities for a total GFA of approximately 71,000 square metres. The project is complete and the first batch of 56 units was launched for sale in mid December.

Azure, Jingye Road, Pudong New District, Shanghai (100% owned)

This project, completed in 2017, is a premium residential development comprised of 232 units with a total GFA of approximately 29,000 square metres. 102 units with a total GFA of approximately 13,000 square metres have been retained as serviced apartments under “Stanford Residences Jin Qiao”. It is within a well-developed residential area that offers good transportation links to the Pudong CBD. The sales launch of the remaining 130 units is subject to the market condition.

Site 7-7,Unit E18, Weifang Village Street, Pudong District, Shanghai (100% owned)

This project is located by the Huangpu River in Pudong, with a total GFA of approximately 14,200 square metres. It is situated in a prime location between the Lujiazui Financial Centre and the convention, exhibition and business zone of the World Expo headquarters. Government approval for the project’s master layout plan was obtained and its construction is expected to be commenced in the first half of 2019.

Site G89, Jiangning District, Nanjing (100% owned)

This project is located in Jiangning District, close to several railway and transportation networks and within 1 kilometre of the Nanjing South Railway Station. It has a total GFA of approximately 49,700 square metres and is being developed into residential buildings with ancillary commercial facilities. Construction works are in progress with expected completion in 2021.

Royal Creek, Pukou District, Nanjing (33% owned)

The Group participated in a joint venture with two property developers in 2017 to develop this site located in Pukou District, lying northwest across the Yangtze River from downtown Nanjing, with a total GFA of approximately 98,500 square metres, into residential buildings. Pre-sales began in late 2017 and now almost all of the residential units have been sold. Development progress is well underway with expected completion in late 2019.

Lot 42 in National Hi-Tech District, Suzhou (100% owned)

This site acquired in November 2017, located in Suzhou National Hi-Tech District, is next to the Suzhou Xinqu Railway Station, Suzhou Rail Transit Line 3 (under construction and scheduled to be completed by 2019) and Suzhou Rail Transit Line 6 (under construction). It has a total GFA of approximately 59,000 square metres and is being developed into residential buildings with commercial facilities. Construction works are in progress with expected completion in 2021.

Lot 58 in National Hi-Tech District, Suzhou (47% owned)

This new joint venture project, located in Suzhou National Hi-Tech District, is close to the Suzhou Xinqu Railway Station, Suzhou Rail Transit Line 3 (under construction and scheduled to be completed by 2019) and Suzhou Rail Transit Line 6 (under construction). It has a total GFA of approximately 75,000 square metres and is being developed into 11 residential buildings offering 654 units. Pre-sales started in December with satisfactory responses. Construction works are in progress with expected completion in 2020.

Guangzhou, Dongguan and Jiangmen

Huadu Jiahua Plaza, Yingbin Road, Huadu District, Guangzhou (100% owned)

This site is close to Baiyun International Airport and has a total GFA of approximately 231,000 square metres. The project is a composite development with residential units, hotels, office space, apartments and commercial facilities. The first phase of the project is complete and operational, includes a hotel and an office tower with a GFA of approximately 32,000 square metres and 13,000 square metres respectively. The second phase, J Wings, has a GFA of approximately 100,000 square metres is complete and almost fully sold. The third and fourth phases of Huadu Jiahua Plaza with a total GFA of approximately 86,000 square metres consist of four buildings which include apartments, retail facilities, a hotel and office premises. The development was completed in November 2018. Of the 2 apartment towers with GFA of approximately 34,000 square metres, a tower was launched for sale in December while the offices tower and retail portions with GFA of approximately 38,000 square metres are being held as investment properties for rental. The hotel with a GFA of approximately 14,000 square metres is expected to commence operation in 2019.

Le Palais, Jianshebei Road, Huadu District, Guangzhou (100% owned)

Located in the downtown area of Huadu, this residential development covers a total GFA of approximately 46,000 square metres and is about a 20-minute drive from the Baiyun International Airport. The project is complete and almost all of the residential units were sold.

Huadu Integrated Project, Xinhuazhen, Huadu District, Guangzhou (99% owned)

The project is only a step away from Baiyun District and is poised to benefit from the build-up of a new transportation network. The total GFA of this project is approximately 805,000 square metres with development to be undertaken in phases in the East and West Sites.

J Metropolis, Xinhuazhen East

The project has a total GFA of approximately 226,000 square metres, offering 1,849 residential units in total. The development is complete and almost all of the residential units have been sold.

Xinhuazhen West Site

The site has a GFA of approximately 579,000 square metres and will be developed in phases for residential units and commercial complexes. Government approval for the project's master layout plan has just been obtained for the first phase and its construction will commence upon obtaining the relevant government approvals. The first phase, with a GFA of approximately 187,000 square metres, will comprise approximately 1,500 residential units and a commercial complex.

Silver Cove, Shilong Town, Dongguan (100% owned)

This project located in the Xihu Village of Shilong Town enjoys an expansive river frontage and is within walking distance of the Dongguan station. It has a total GFA of approximately 236,000 square metres offering 1,867 residential units for sale, and commercial portions with a GFA of approximately 11,600 square metres retained for rental. The development is complete and over 85% of the residential units sold as of year end.

Hengjiang Village, Chashan, Dongguan (100% owned)

This newly acquired site, located in Hengjiang Village, Chashan, is close to Dongguan Metro Station and Dongguan Rail Transit Line 2. It has a total GFA of approximately 159,000 square metres and will be developed into approximately 1,200 residential units with commercial facilities of approximately 2,000 square metres. Construction is expected to be commenced in 2019.

Jianghai Site No. 02, Jianghai District, Jiangmen (100% owned)

This residential development site was acquired in August 2017 and is located in Jianghai District. It has a total GFA of approximately 133,700 square metres and is being developed into residences with commercial and retail components. Construction works are in progress with expected completion in 2020.

Jianghai Site No. 12, Jianghai District, Jiangmen (100% owned)

This residential development site was acquired in October 2017 and is located in Jianghai District, adjacent to Jiangmendong Railway Station of the Guangzhou-Zhuhai Intercity Rail Transit and next to the previously-acquired Jianghai Site No. 02. It has a total GFA of approximately 144,900 square metres and is being developed into residences with commercial and retail components. Construction works are in progress with expected completion in 2020.

Xinhui Site No. 03, Xinhui District, Jiangmen (50% owned)

This site is located in the area of Jiangmen Avenue, in the heart of transportation networks, schools and commercial areas. It has a total GFA of approximately 100,000 square metres and will be developed into residential buildings. Planning and design work is underway. Construction is expected to be commenced in 2019.

(B) Investment Properties

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (69.6% effective interest)

This prime investment property with a total GFA of approximately 72,000 square metres continued to achieve an average 95% occupancy throughout the year. The average rental rate increased moderately upon the renewals of existing tenancies and execution of new tenancies, providing good rental income for the Group.

Stanford Residences, Shanghai (100% owned)

The Group is dedicated to creating a privileged lifestyle residential environment for tenants in pursuit of high-end modern living. “Stanford Residences” including “Jing An”, “Xu Hui” and “Jin Qiao” with a total GFA of approximately 71,000 square metres, offers everything from five-star management services to sophisticated and contemporary interiors that feature stylish furniture and fittings. Throughout the year, they all achieved high occupancy and contributed stable rental income to the Group.

Palace Lane, Shanghai (100% owned)

To serve its prestige residents at The Palace and the high end retail market in Xuhui, Palace Lane, with a total GFA of approximately 8,000 square metres, became fully operational in the year. It has been very well received, with over 90% was leased as of year-end.

J Town, Dongguan (100% owned)

Aiming to create a fun and exciting lifestyle experience for visitors, J Town, a commercial complex situated within Silver Cove, has a total GFA of approximately 11,600 square metres. It provides daily needs to residents, as well as being a popular destination for the surrounding neighbourhood by offering consumers a wide variety of entertainment, leisure and food and beverage experiences to consumers. J Town was fully operational in the year. It has enjoyed high patronage and very positive market feedback, over 80% leased as of year-end.

Huadu Jiahua Plaza, Guangzhou (100% owned)

Retail portions of the third phase of Huadu Jiahua Plaza and fourth phase comprising of an office tower with retail facilities, completed in November, with an aggregate GFA of approximately 38,000 square metres is held for rental and were just launched to the market for leasing.

Office project, Suhe Creek, Jingan District, Shanghai (53.61% owned)

The site located by Suhe Creek in Jingan District with a total GFA of approximately 20,000 square metres is being developed into an office building, with some portions for cultural and commercial activities. Construction works are underway with expected completion in the first half of 2020.

Investment in GEG

The Group maintains a non-current investment of 162 million shares, or an approximate 3.8% interest, in GEG carried at fair market value. As of 31 December 2018, the share price of GEG was HK$49.8 compared with HK$62.7 as of 31 December 2017. The change in fair value of approximately HK$2,096 million was recorded in reserve.

OUTLOOK AND STRATEGY

Global and Mainland China

During the year, global economies were volatile mainly as a result of the trade conflicts between Mainland China and the US. British Prime Minister, Theresa May, struggled with EU on the terms for Brexit. Germany chancellor, Angela Merkel, decided in October not to run for another term after her current term ends in 2021. Emmanuel Macron, the French President, was busy dealing with anti-government movements. These political instabilities together with the weakening economies of certain southern EU countries have caused concerns over the possible breakup of the EU and its economic growth. The US continued to stand out and perform well in the year although the US Federal Reserve raised the federal fund rate four times, each by 0.25% after three hikes of 0.25% each in 2017.

With all the uncertainties globally, US economy recently slowed down which made the market expect that US interest rate hike cycle is ending soon. The RMB appreciated in early 2018 until April and subsequently dropped due to weakened economic growth resulting partly from additional tariffs by the US on its exports there. Nevertheless, with trade talks between Mainland China and the US progressed, the RMB rebounded from November which ended up devaluing only 6% against USD in the year and remained strong in early 2019.

US GDP grew 2.9% in the year compared to 2.3% for 2017 while the US Federal Reserve expects a growth of 2.3% in 2019. China's GDP grew 6.6% in the year, exceeding the government target of 6.5% with the target adjusted downwards to 6-6.5% for 2019. In Hong Kong, GDP grew 3% in the year, on the low end of the government's full year revised forecast of 3-4%. GDP growth rate between 2-3% was forecasted for 2019.

The property market in Hong Kong and Mainland China

The Hong Kong Government announced in November its "Lantau Tomorrow Vision" for reclamation of 1,700 hectres land east of Lantau Island and recently adopted the report by the Task Force on Land Supply, demonstrating its commitment to land supplies that meet Hong Kong's development need. Property prices reached record highs in August before starting a correction, mainly due to concerns over the trade war between Mainland China and the US, and possible interest rate hikes affecting buyers' affordability. There were approximately 15,600 primary transactions registered with the total amount of HK$219.5 billion for the year compared with the total of 18,600 for 2017 of HK$240.5 billion. With recent positive news on the progress of the trade talks between Mainland China and the US lately, the market has stabilised with transaction prices and volumes recovered amid the strong fundamentals and it is not expected to see significant adjustments in the near term.

Restrictive measures in Mainland China will not be significantly relieved. Transaction volumes, particularly for Tier 1 and 2 cities, remained relatively low while home prices will remain stable, supported by the genuine underlying demand. The situation is expected to stabilise and we remain optimistic on the Mainland China property market in the medium and longer term, particularly in the Pearl River and Yangtze River Deltas where we have our operations focused on, due to the preferential policies adopted by the Central Government for building clusters of cities in these regions to enhance their overall competitiveness.

Project sales and progress

In Hong Kong, handover of the sold units of K. City commenced immediately upon the certificate of compliance was granted in late November 2018. Approximately 70% of units were delivered as of the year end out of 889 units sold with revenue of HK$6.7 billion recognised in the year. The remaining sold units will also be delivered to buyers with the related sales recognised in the first half of 2019. The Group will continue to market the project's remaining units. Construction for Solaria in Tai Po progressed as scheduled. Pre-sales of the project launched in June 2018 received overwhelming responses with 709 units sold as of the year end. Sales will be recognised upon delivery of sold units to buyers. Development of its joint venture projects for Cheung Sha Wan and Kam Sheung Road progressed as scheduled.

In Mainland China, the Group launched for sale of its completed projects, Windermere in Shanghai and the apartments in its completed Phase III of Huadu Jiahua Plaza in late December. New batches of units of these two projects will continue to be marketed in 2019. The Group will soon launch the completed Phase III of The Palace in Shanghai in the first quarter of 2019. Handover of the remaining sold units of The Peak and other projects will continue in 2019 with satisfactory progress, upon which sales will be recognised. Development of the Group's other wholly owned projects and the new joint venture development in Jiangmen progressed as scheduled. Construction of Royal Creek, a 33% owned project in Nanjing of which 97% was presold by year end, is expected to be completed in late 2019. Development of the Group's new joint venture projects in Kunshan, Suzhou and Jiaxing progressed as scheduled and sales of which were launched in the year. The Group will also continue to market its remaining units in various projects in Mainland China.

Land bank replenishment

The Group actively participated in land bids in Hong Kong in the year but did not secure any, whereas land sites, wholly owned or via joint ventures, were acquired in Mainland China. It will continue to exercise discipline and sound judgment in evaluating land replenishment opportunities, taking advantage of the softening land market in Hong Kong and Mainland China.

Recurring income

In Shanghai, following the full completion of the second phase of The Palace in the year, two more towers of approximately 11,000 square metres were converted into serviced apartments under "Stanford Residences Xu Hui". Palace Lane, the commercial portion of The Palace, with a GFA of approximately 8,000 square metres, and J Town, the commercial portion in Silver Cove, Dongguan, with approximately 11,600 square metres, were fully operational in the year. Phases III and IV of Huadu Jiahua Plaza were completed in November. Commercial portions and offices of approximately 38,000 square metres were launched for leasing with favourable response. The hotel with a GFA of approximately 14,000 square metres is expected to commence operation in 2019. In Hong Kong, the remaining office units in Kingsfield Centre were transferred to investment properties for rental. As a result, the Group's investment property portfolio grew from approximately 190,000 square metres on 31 December 2017 to approximately 240,000 square metres as of year end. With our office project at Suhe Creek, Jingan, Shanghai, expected to be completed in 2020 and the commercial portions of our projects under development to be held for rental, we are on track to enlarge our portfolio for recurring income.

Dividend derived from our approximately 3.8% interest in GEG increased by over 54% compared to 2017 and remains a source of our recurring income.

Conclusion

Major developed countries, Mainland China and Hong Kong generally performed well in 2018 although their economic growth weakened in the second half of the year mainly due to the trade conflicts between Mainland China and the US. Their economic growth is expected to continue to be stable in 2019 unless the trade war between Mainland China and the US escalates dramatically while there are challenges ahead.

While there is less concern over interest rate hikes by US, quick catching up of US interest rate hikes by Hong Kong is not expected. Unemployment rate will also remain low in Hong Kong in 2019 and it is conservatively expected that the prevailing high liquidity and fundamental demand in the market will continue in the near future.

The risk of administrative policies by the government will remain the major factor in suppressing property transactions in Mainland China while its economy is expected to grow, although at a lower rate than the previous years. It is expected to continue to outperform developed countries, providing support for the RMB which is forecasted to remain stable in 2019.

The Group will continue to develop our existing projects and to have the projects in our pipeline launched according to schedules, as well as to further to replenish our land bank in a disciplined manner. We prudently believe that the Mainland China property market will still grow healthily in the longer term despite the restrictive measures implemented and slowing economic growth. The Group is well positioned to capture any opportunities in the softened market, both in Hong Kong and Mainland China.

REVIEW OF FINANCE

Financial Position

The financial position of the Group remained healthy throughout the year. As of 31 December 2018, total funds employed (being total equity and total borrowings and guaranteed notes) was HK$56 billion (2017: HK$55 billion). The number of issued shares of the Company increased to 3,124,854,615 as of 31 December 2018 (2017: 3,055,461,052) as a result of the issuance of scrip dividends and exercise of share options during the year.

Group Liquidity, Financial Resources and Gearing Ratio

The Group monitors its liquidity requirements on a short-to-medium-term rolling basis and arranges refinancing of the Group's borrowings when appropriate. As of 31 December 2018, the Group's borrowings of bank loans and guaranteed notes were HK$18,711 million, with a maturity profile spread over a period of up to five years except for HK$199 million which is due after 5 years, 6% of the rest is repayable within one year and the remaining 94% repayable over one to five years. The average interest rate for the Group during the year was approximately 2.5%.

As of 31 December 2018, the Group had available undrawn banking facilities totaling HK$13,781 million comprising HK$9,382 million for working capital and HK$4,399 million for project facility purposes.

As of 31 December 2018, cash and bank deposits stood at HK$7,489 million, and approximately 31% was held in Renminbi.

The gearing ratio, defined as the ratio of total borrowings and guaranteed notes less cash and bank deposits to total equity, stayed at 30% as of 31 December 2018 (2017: 34%).

A 5-year revolving credit and term loan facilities of HK$7 billion were executed in January 2018 for refinancing at lower cost and additional funding source to enhance the Group's funding capability.

Treasury Policies

In order to minimise risk, the Group continues to adopt a prudent approach regarding foreign exchange exposure. Forward foreign exchange contracts are utilised when considered appropriate and when attractive pricing opportunities arise to mitigate foreign exchange exposures. Interest rate swap contracts are also utilised as appropriate to avoid the impact of any undue interest rate fluctuations on the Group's operations.

Of the Group's bank loans and guaranteed notes of HK$18,711 million as of 31 December 2018, approximately 92% was denominated in Hong Kong dollars, with the remainder in Renminbi. Approximately 91% of such borrowings and notes were on a floating rate basis, with the remainder on fixed rate basis.

Charges on Group Assets

As of 31 December 2018, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK$15,962 million (2017: HK$5,338 million) to banks in order to secure the Group's borrowing facilities.

Guarantees

As of 31 December 2018, the Company has executed guarantees in favour of banks and financial institutions, in respect of facilities granted to certain subsidiaries and joint ventures, amounting to HK$28,347 million (2017: HK$17,779 million) and HK$3,609 million (2017: HK$1,460 million) respectively. Of these, facilities totalling HK$16,953 million (2017: HK$16,990 million) and HK$2,880 million (2017: HK$1,323 million) respectively have been utilised.

In addition, certain subsidiaries of the Company provided guarantees amounting to HK$1,081 million (2017: HK$1,241 million) in respect of mortgage facilities granted by banks relating to mortgage loans arranged for purchasers of the Group's properties.

EMPLOYEES AND REMUNERATION POLICY

The Group believes its long-term growth and success depend upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to offer competitive remuneration packages to attract, retain and motivate talents. With result-driven incentive programmes which are built upon our established performance management framework, the Group believes the remuneration packages of its employees are fair, reasonable and competitive in relation to comparable organisations with similar business interests.

The Group has put in place a share option scheme for its executives and employees since 1989 for the purposes of providing competitive remuneration package as well as retaining talents in the long term. The Group puts emphasis on employees' training and development opportunities which form an important component of the Group's human resources strategy. Training and development programmes are provided through internal and external resources in each year to address the needs of our employees for the sustainable development of our businesses.

ENVIRONMENTAL, SOCIAL AND GOVERANCE POLICIES

The Group had prepared a report for 2018 in compliance with Appendix 27 to the Rules Governing the Listing of Securities ("***Listing Rules***") of The Stock Exchange of Hong Kong Limited ("***HK Stock Exchange***") on "Environmental, Social and Governance Reporting Guide". Highlights of the Group's environmental, social and governance policies and performance were presented in this discussion.

The Group has taken the necessary steps to develop and put forth an environmentally conscious business approach which promotes operations that are in line with industry best practices. We are keen to explore all possible areas to help us further improve our environmental performance. Sustainable designs and considerations are incorporated into our projects from the early stage of development while our sustainability vision ensures that operations and procedures adhere to the principles of resource conservation and energy efficiency. Our efforts have been recognised through multiple avenues such as inclusion on constituent of the Hang Seng Corporate Sustainability Benchmark Index in 2018, which enables us to evaluate ourselves against industry peers and provide a benchmark for sustainable investments. Ultimately, we strive to improve our Company-wide environmental performance and will continue to work diligently towards a sustainable future.

As our business is primarily focused on property development and investment, we recognise the importance of efficient resource management through the use of innovative technologies and positive behavioural changes. To control unnecessary energy consumption, we have installed Building Automation Systems in the offices which automatically adjust lighting and air-conditioning to optimal levels. To further reduce our dependence on air-conditioning, we have also installed solar window films to reduce heat gain and moderate indoor air temperature. Our efforts in waste reduction continue to yield excellent results as we proceed to adopt new measures and initiatives. In our Shanghai and Nanjing offices, internal application and approval procedures have been migrated online onto an Office Automation System significantly reducing paper use.

Moving forward, we will continue to incorporate sustainable features and technologies into building design and pursue internationally recognised green building standards in our new projects, such as the LEED certification from the US Green Building Council. Additionally, we encourage our partners to operate in line with sound environmental stewardship practices. We have made considerable efforts to strike an optimal balance between environmental performance, quality and comfort for our building users.

Account of Key Relationships with Employees, Customers and Suppliers

The Group consistently engages with various stakeholder groups to gather their views and understand their expectations and interests. We look to foster positive relationships with our stakeholders and will take their needs into consideration when deliberating on corporate decisions.

Employees

We recognise the importance of our employees to the success and longevity of the Group. We work meticulously to ensure the health, safety, and well-being of all members of our staff; building a safe and comfortable environment for our employees is of utmost importance. Furthermore, we believe that the performance of an individual is maximised when they feel respected and are given the opportunities for self-expression. Therefore, we continue to implement merit-based appraisal policies and assert zero-tolerance for any form of discrimination during our recruitment or promotion processes. The Group continues to offer our employees competitive remuneration and benefit packages, including some that also apply to their family members, in order to promote work-life balance and personal well-being.

To fully support their continual development, we provide our staff with access to online courses as well as sponsorships for relevant external training courses.

Customers

The Group maintains high quality standards to ensure we meet the expectations of our customers. Stringent control measures are in place to screen and prioritise qualified contractors to assure product quality. In Hong Kong, these measures include a pre-qualification screening to ensure selected contractors are ISO 9000 quality management system certified. Our Mainland China projects are subject to similar assurance measures, as well as our Standard Operating Procedures, which guide our quality control processes from the design phase of a project to its completion.

We hold our business to the highest ethical standards and strictly comply with all relevant advertising, data privacy, and product responsibility standards and regulations.

Suppliers

KWIH actively engages a wide range of suppliers and contractors with the purpose of extending our corporate commitments beyond the Company. We work closely with the various participants of our supply chain to mitigate the potential social and environmental risks that may arise. Our supplier selection criteria includes the review of past performance and suppliers' job references so that only competent suppliers are nominated. Once chosen, they are required to follow rigorous quality control and audit procedures.

Compliance Status with Relevant Laws and Regulations that have a Significant Impact on the Business

During the reporting year, the Company did not receive any cases of non-compliance with the relevant laws and regulations regarding the environment, labour standards, occupational health and safety, anti-corruption, or data privacy in Hong Kong and Mainland China.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to the principles of observing good corporate governance consistent with prudent management and enhancement of shareholders' value. The full Board is entrusted with the overall responsibility of developing and ensuring adherence to the Corporate Governance Policy and the Shareholders Communication Policy. The Company is committed to maintaining high standards of corporate governance and enhancing corporate transparency and accountability.

Throughout the year under review, the Company has complied with the code provisions ("***CPs***") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on the HK Stock Exchange, apart from the deviations from (i) CP A.2.1, namely, the roles of chairman and managing director have not been separated; and (ii) CP A.4.2, namely, the chairman and the managing director are not subject to retirement by rotation.

The Board believes that the Company has strong underlying rationale to deal with such deviations as mentioned under the section headed "COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES" in the Corporate Governance Report of its 2017 Annual Report and as alluded to in the section headed "CORPORATE GOVERNANCE" in its 2018 Interim Report. Detailed information of the Company's corporate governance practices will be disclosed in the Corporate Governance Report contained in the Company's 2018 Annual Report. The Board has taken alternative steps to address such deviations. The Board will continue to review and recommend such steps and actions as appropriate in the circumstances of such deviations.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("***Model Code***") as set out in Appendix 10 of the Listing Rules as code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company. The figures in this preliminary announcement of the results of the Group for the year ended 31 December 2018 have been agreed to the amounts set out in the Group's draft consolidated financial statements for the year by the auditor of the Company, PricewaterhouseCoopers. The work of PricewaterhouseCoopers in this respect, did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

FINAL DIVIDEND

The Board has resolved to recommend at the forthcoming annual general meeting to be held on 5 June 2019 ("***2019 AGM***") a final cash dividend for the year ended 31 December 2018 of 14 HK cents per share, totaling HK$437,480,000, payable on 17 July 2019 to the shareholders whose names appear on the registers of members of the Company at the close of business on 19 June 2019 (2017: a final scrip dividend (with a cash option) of 13 HK cents per share totaling HK$397,853,000). Together with the interim scrip dividend (with a cash option) of 6 HK cents per share (2017: interim scrip dividend (with a cash option) of 5 HK cents per share), total dividends per share for the year ended 31 December 2018 is 20 HK cents (2017 total: 18 HK cents).

CLOSURE OF REGISTERS OF MEMBERS

Entitlement to attend and vote at the 2019 AGM

The registers of members will be closed from 31 May 2019 to 5 June 2019, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' eligibility to attend and vote at the 2019 AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 30 May 2019.

Entitlement to Final Dividend

The registers of members will be closed from 14 June 2019 to 19 June 2019, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' entitlement to the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 13 June 2019.

RETIREMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Dr. Robin Chan Yau Hing ("***Dr. Chan***") has tendered his intention, to retire as Independent Non-executive Director of the Company upon completion of his service contract with the Company in June 2019 and at the conclusion of the 2019 AGM. The Board would like to express sincere appreciation to Dr. Chan for his invaluable contribution to the Company during his tenure.

PUBLICATION OF FURTHER INFORMATION

This announcement will be published on the websites of the Company (*www.kwih.com*) and Hong Kong Exchanges and Clearing Limited ("***HKEx***") (*www.hkexnews.hk*). The Company's 2018 Annual Report containing all the applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Company and HKEx in late April 2019.

DIRECTORS

As at the date of this announcement, the Executive Directors are Dr. Lui Che-woo (Chairman & Managing Director), Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah; the Non-executive Director is Dr. Moses Cheng Mo Chi; and the Independent Non-executive Directors are Dr. Robin Chan Yau Hing, Dr. William Yip Shue Lam, Mr. Au Man Chu and Mr. Wong Kwai Lam.

By Order of the Board of
K. Wah International Holdings Limited
Lee Wai Kwan, Cecilia
Company Secretary

Hong Kong, 20 March 2019